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TESTIMONY

BY THE

NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

BEFORE THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, DC

APRIL 23, 1985

Representing supervisors in the United States Postal Service

Mr. Chairman, Members of the Committee: My name is Rubin Handelman. I am Executive Vice President of the National Association of Postal Supervisors, an organization representing 44,000 mid-level managers in the U.S. Postal Service.

We appreciate the opportunity to offer the views of our association on the development of a supplemental retirement plan for employees hired after 1983 who are under Social Security.

We again express our agreement with and support for the principles you announced, Mr. Chairman, when you opened hearings on this subject in February of 1984. We, too, believe the supplemental plan must be designed so it will not threaten the integrity of existing federal retirement systems. Earned benefits must be protected. The supplemental plan, together with Social Security, must be comparable with existing systems so that employees working side by side will not perceive themselves as being treated differently in retirement matters.

We once again commend this Committee, and particularly you, Mr. Chairman, for the time and effort you have given to the background studies preliminary to the actual design of the supplemental plan. Knowledge of the features and costs of retirement plans sponsored by other employers will be invaluable in the design and approval of a supplemental plan that will be in the best interests of employees, of the employer, and of the taxpayer. However, we believe there are considerations unique to the federal government as an employer which must be taken into account if the new retirement plan is to continue to serve the best interests of all concerned.

For example, if the government had followed the practices of private industry in 1920, there would have been no Civil Service Retirement System enacted at that time. Very few employers in the private sector had any retirement plan and there was no Social Security System, but government realized there was a need to provide a humane method of removing older employees from the employment roles. The Civil Service Retirement System was adopted primarily to fill that need. Another example relates to the provisions for early retirement. In addition to cost and private industry practice, attention must be given to the effect omission of early retirement provisions from the new supplemental plan would have on the ability of government to carry out its many important and complex missions in the most efficient way possible. The December 12, 1984 report from the Congressional Research Service to this Committee included this statement:

"If an employer desires an older workforce, early retirement reductions will further that goal." (Page 205)

During the fiscal year 1982, 21,040 employees retired at ages 55 through 59, with an average age of 56.2 years. They had an average of 34.2 years of service. Would it have been in the best interest of the government if these same employees had been required to work for another five to ten years before retiring? We submit that it would not. Most retirements provide an opportunity for employees who are younger and who have less service to move up the promotional ladder. This helps to keep the workforce young, vigorous and productive. We urge this Committee and the

Congress to look beyond cost and comparative practice when it designs the new supplemental retirement plan.

Cost

You have asked us to focus on certain specific issues. The first of these is the appropriate cost of the new system.

We believe the employer cost for Social Security plus the supplemental plan should not be less than the 24.7 percent of pay estimated by the Congressional Research Service to be the present cost of the Civil Service Retirement System. If the employer contribution is reduced below this level, it is inevitable that the new system will be perceived by new employees to be inferior to the old plan that applies to employees with whom they work side-by-side. There is a retirement principle that states that cost equals benefits. You cannot reduce the cost of a retirement system without also reducing its benefits.

The Hay/Huggins benefits comparison of 854 private employers showed the average employer cost to be 18.3 percent of pay. However, we believe of even greater significance is the finding in the same study which showed the average cost for the top 10 percent of employers was 25.1 percent of pay. Government, we think, should look to the best in private industry -- not to the average of 854 retirement plans that range from very good to very bad.

For most of the years since its adoption, the Civil Service Retirement System has been a model for private industry to emulate. The private sector has come a long way since 1920, and we recognize government can improve its retirement practices by adopting some of the progressive features now in use in private industry. But, government should not fall into a pattern of basing its own retirement plan on an average that includes the mediocre.

Social Security Tilt

Social Security replaces a higher percentage of pay for employees retiring at lower salary levels than it does for higher salaried employees. This tilt can be wholly or partially eliminated by a supplemental plan that offsets some or all of the Social Security benefit. It can also be minimized by a step-rate plan that gives higher-salaried employees higher accrual rates for pay above a prescribed level. We believe neither of these methods is necessary for government workers.

The disadvantage of an offset method is that it is very difficult for an employee to understand how much he or she will receive in retirement income. It also involves administrative complications and expenses because the administrators of the supplemental plan must calculate or must learn from the Social Security Administration how much the former worker is receiving from that source. The step-rate approach is somewhat simpler, but it requires periodic amendment to adjust the level above which higher plan accruals are provided.

At this time, we lean toward an add-on approach. It should work very well where the difference between the lowest government pay and the highest government salary are much closer together than the highs and lows in private industry. It would avoid the administrative complications of the offset approach, and the reopenings to adjust the level of plan accruals of the step-rate method. We would, however, like to reserve final judgment on this issue until the details of the specific proposal are available.

Employee Contributions

Employees who are under the new supplemental plan should be required to contribute at approximately the same rates as employees under the pre-1984 Civil Service Retirement System. This is particularly true if the combined benefits of Social Security plus the supplemental plan are about the same as those of the old system as we have recommended.

Recently, this Committee heard testimony from OPM Director Dr. Donald Devine about the supplemental retirement plan under consideration by the Administration. Under this plan, an employee would be required to pay the Social Security tax averaging about 6.1 percent over the years, and could contribute up to $5,000 a year to a capital accumulation plan. The level of total benefits would be meager and inadequate unless the employee participated in the capital accumulation plan. A contribution of $5,000 a year by a an employee whose pay is $30,000 a year is equal to over 16 percent of pay. Add this to the 6 percent for Social Security and we are looking at a system with a total employee contribution of over 22 percent of pay.

Not only is this a disproportionate amount for an employee to set aside for his or her ultimate retirement, but contributions at this level would be impossible for younger employees, particularly those with families.

Funding and Financing

As long as retirement financing is treated as part of the unified budget, it makes little or no difference whether the system is fully funded. Amounts transferred to the Retirement Fund by Treasury are interfund transfers that do not affect the budget deficit.

If the present Civil Service Retirement System were fully funded under the dynamic assumptions used by the Office of Personnel Management to produce its estimates of a half-trillion dollar unfunded liability, the balance in the retirement fund would be about $650 billion. We doubt any real purpose would be served by setting aside amounts of this magnitude years in advance of their need for the payment of benefits. The Social Security System makes no attempt to build up huge funds in advance of need, and we see no advantage to fully pre-funding the new supplemental system.

We do think it is essential to use one retirement fund for both the old and new systems. This is particularly important since new employees will be cut off from entering the old system. Fairness would seem to require that the retirement fund should be available for payment of benefits to any retired employee or survivor, new or old, and that as long as there is a dollar in the fund, it should be available for use where needed. Whether funding should come from agency appropriations or from the Treasury is more a matter of cost accounting and of bookkeeping than of adherence to any principle of retirement financing.

Vesting

Since 1942, the Civil Service Retirement System has vested a deferred retirement benefit in an employee after five years of service. Most employees leaving government service after five years, but before being old enough to qualify for an annuity, take a refund of their own retirement deductions and forfeit the deferred annuity. Many do this because the deferred benefit is not indexed to reflect the inflation that occurs between separation and the commencing date of the annuity.

Social Security does not permanently vest a future benefit until the employee has 10 years of coverage, but this coverage may be for more than one employer. In other words, Social Security is portable regardless of the length of the employment, but does not vest permanently before 10 years of the service.

Most private sector plans vest after 10 years of service. The vesting period of the new supplemental system should not, we believe, be longer than 10 years. It could be as short as the present five years, depending upon the design of the new system. The shorter period is preferable if the vesting results in income after retirement. We think it should not be used to provide cash payments of the employer's retirement contribution to an employee who leaves service after a few short years. Such use, in effect, provides severance pay rather than a vested retirement benefit.

Unique Employment Categories

The National Association of Postal Supervisors does not have any members who are in special retirement categories. However, we recognize that provisions for such employees were adopted originally because of a perceived need to have them retire at younger ages than employees generally, and the special annuity computations are necessary to make it economically feasible to retire early.

Unless the need for early retirement for these special employees has changed, we think the new supplemental system should provide them with early retirement and bonus annuities. There should be a minimum of difference between the rights and benefits of employees hired before and after January 1, 1984.

Mr. Chairman, we appreciate this opportunity to offer our views on this issue and we will be glad to answer any questions.